

ECONOMIC ACTIVITY PULSE

# Turkey: Another Positive Growth Surprise

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1Q17 GDP surprised positively by growing 5% YoY compared to the market (3.4%) and our expectations (3.2%). Net exports and public spending were the main drivers of growth while the positive surprise factor was the solid private consumption growth. Intensified government stimulus seems to help households lift the negative effects of financial market volatility during the quarter. Looking ahead, our monthly GDP indicator points at even an increasing momentum towards 6% as of April on fast credit expansion through the credit guarantee fund. This implies a rapid narrowing output gap, suggesting less need for fiscal and recent “macroprudential” stimulus in the coming period. The risks on our 3% whole year growth forecast are clearly on the upside.

## Strong exports and consumption growth as main drivers

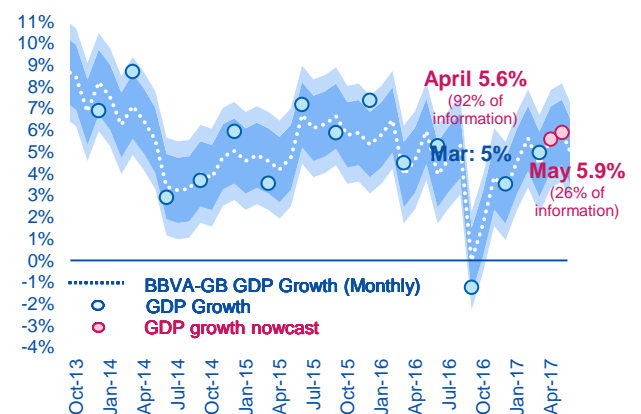
Private consumption maintained its momentum by growing 5.1% in 1Q17 and continued to be higher than its long term average of 4.3%. Government consumption also jumped by 9.4%, resulting in a total consumption contribution of 4.4pp. Investment expenditures, on the other hand, remained weak by growing 2.2% as machinery and investment continued to be the soft belly with 10% contraction, the largest level since the start of the series in 2009. Thus, domestic demand -including stocks- gave a total contribution of 2.8pp, while net exports also contributed positively by 2.2pp. Negative contribution from stocks by 2.3pp hinted that production growth might have fallen especially behind exports as consumption was backed by mostly non-durable goods. On the production front, the main contributor continued to be the services sector (mainly trade, transportation, accommodation and financial services). Similar to 4Q16, industrial growth was solid by 5.3%, while construction sector remained muted by 3.7%.

Figure 1 Activity Indicators (3MA, YoY, SA)

Mean	2016					2017				
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	
Industrial Production	3.6	-3.1	-0.3	0.4	2.0	3.3	12	17	2.3	
Non-metal Mineral	12	-3.0	2.3	17	-10	-4.2	-6.9	-2.0	-0.4	
Electricity Production	4.5	3.5	3.7	3.4	5.3	5.7	5.6	5.7	4.8	
Auto Sales	3.7	-5.2	3.4	24.1	10.2	6.4	-8.8	-7.5	-117	
Tourist Arrivals	-0.7	-36.0	-33.1	-28.2	-21.3	-14.8	-9.2	-6.4	3.7	
Number of Employed	3.6	13	14	15	13	13	13	14		
Number of Unemployed	5.2	13.2	14.6	16.1	16.6	20.3	21.0			
Auto Imports	6.2	-10.2	9.0	317	16.4	11.1	-8.1	-2.7	-17.0	
Auto Exports	7.8	12.2	-16.5	-10.6	-17	33.5	30.2	33.5	22.0	
Financial Conditions	74.1	88.6	92.6	80.1	73.6	59.0	42.6	38.3	34.4	
Credit Growth-13Week	12.6	14.5	14.8	14.0	14.3	14.0	14.7	15.3	15.6	
Retail Sales	3.9	-0.8	0.3	-0.5	-18	-2.3	-3.2	-2.3	-1.7	
Real Sector Confidence	107.2	106.6	104.9	108.2	103.9	100.6	106.2	106.5	104.8	
MICA Forecast										
GDP YoY		-1.3%		3.5%			5.0%	5.6%	5.9%	
		Contraction		Slow-down		Growth		Boom		

Source: Garanti-BBVA Research Monthly GDP Model, Turkstat

Figure 2 Garanti-BBVA Research Monthly GDP (YoY)\*



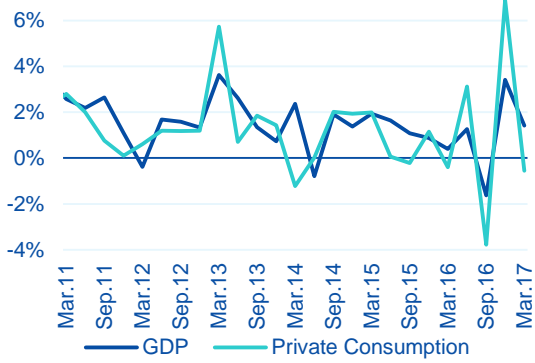
Source: \*BBVA-Garanti monthly GDP is dynamic factor model (DFM) synthesizing high-frequency indicators to proxy monthly growth of GDP. Source: BBVA-Garanti Monthly GDP Model, Turkstat \*Our indicator is also available on Bloomberg with the ticker GBTRGDPY Index

## Narrowed output gap suggests less need for fiscal stimulus

Intensified fiscal stimulus and solid export growth carried Turkish GDP growth to 5%, which is close to its long-term potential. The momentum will accelerate even further in 2Q on the back of private demand thanks to the rapid credit expansion, according to our models. Higher than expected growth in 1Q17 and the signs of even strengthening private demand should provide the Government a relief to bring back its fiscal expansion. This would limit the deterioration in budget performance while alleviating upward pressures on both market interest rates and inflation. Our 3% growth forecast for 2017 is under review for an upward revision by at least 1pp.

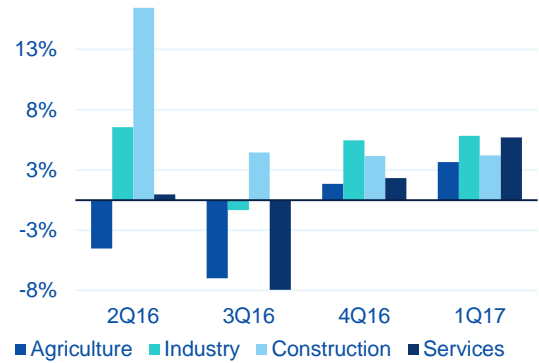
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**Figure 3 GDP Growth QoQ (Seasonally & Calendar Adj)**



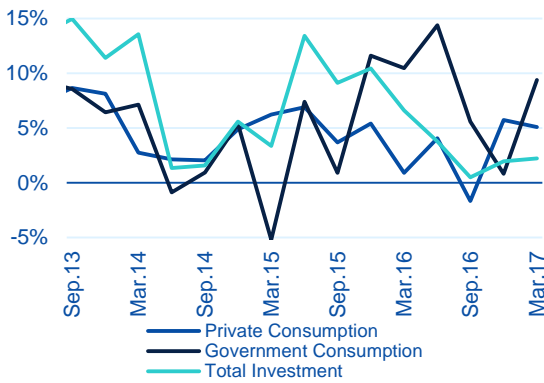
Source: Garanti Research, Turkstat

**Figure 4 Sectorial Growth YoY**



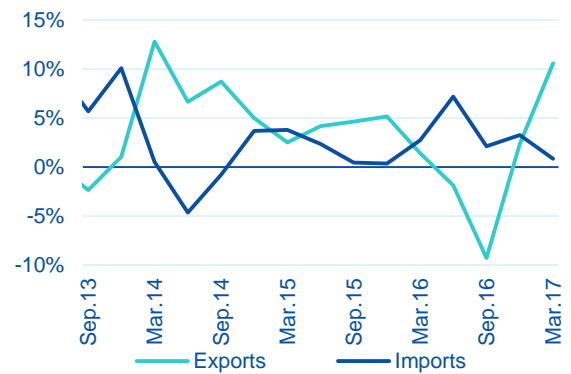
Source: Garanti Research, Turkstat, CBT, BRSA

**Figure 5 Domestic Demand Indicators YoY**



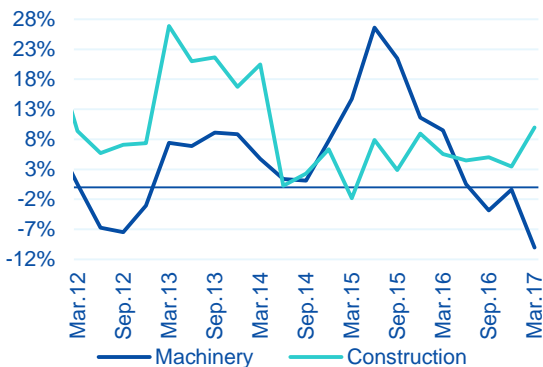
Source: Garanti Research, Turkstat, TETC

**Figure 6 External Demand Indicators YoY**



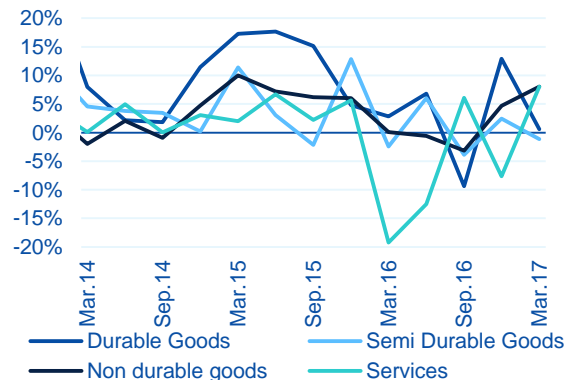
Source: Garanti Research, Turkstat, CBT, AMA

**Figure 7 Gross Fixed Capital Formation YoY**



Source: Garanti Research & Turkstat

**Figure 8 Private Consumption Details YoY**



Source: Garanti Research, Turkstat, CBT, BRSA

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